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Why CPA Standards Are Important to You

American Institute of Accountants

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WHY

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This leaflet answers some of the questions most frequently asked about Certified Public Accountants, their professional standards, and why State laws setting qualifications for the CPA certificate are desirable.

Prepared by

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Q. Why do all States require certified public accountants to pass professional examinations, like doctors and lawyers?

A. The CPA certificate is a mark of professional competence relied upon by businessmen, banks, government agencies, and others who are concerned with financial reports.

Q. Why is the integrity of the certified public accountant important to anyone except those who employ his services?

A. The investments of every savings bank depositor, life insurance policy holder, and corporation stockholder are protected, directly or indirectly, by audits made by independent certified public accountants.

The enormous expansion of our economy in the last fifty years, with wide distribution of ownership of business, many new and complex taxes, and increased public responsibility on the part of business management—all these influences have added to the demand for an independent review of accounts, and the necessity for means of distinguishing those who are qualified to express an opinion on the financial position and income of business concerns.

Stuart Chase, the economist, said recently that the auditor's certificate, signed by a CPA, "is something like the sterling mark on silver."

Q. What justification is there for the statement that accounting is a profession?

A. The professional character of the work performed by certified public accountants is attested in many ways. CPAs have a code of ethics embodying their integrity, independence and public responsibility. A profession is a

calling marked by such a code of ethics, by a high degree of training, skill and discipline, the subordination of financial gain to the rendering of essential services, and the licensing or regulation of membership. The certified public accountant, in the creative application of his skills to business and economic problems, meets all of these professional standards and requirements.

The Encyclopedia of the Social Sciences says: "The profession of accounting has become established on a par with law, medicine and other learned professions."

The first State law setting professional standards for certified public accountants was passed over fifty years ago.

Q. What does a certified public accountant's opinion on a financial statement mean?

A. It means at least three things: (1) that the statement has been examined by a person qualified to express an expert opinion; (2) that the CPA has satisfied himself that supporting evidence really justifies his opinion; (3) that the auditor stakes his professional reputation on the opinion that the financial statement actually does fairly present the financial position and results of operations of the given company for the period covered—or the opinion will indicate the respects in which it does not.

Q. Isn't accounting simply a matter of book-keeping?

A. By no means. Bookkeeping is a mechanical and relatively routine function, while accounting is constructive and interpretive. In view of the complexity of business and financial affairs today, the preparation, review and evaluation of a financial statement requires special skills and knowledge. There is room for considerable difference of opinion on matters concerning

inventories, depreciation, allocations of cost and revenue, and many other factors which affect a company's financial position and net income. A wrong opinion on such matters can make enormous differences to management, to stockholders, and to the public.

Q. How does one become a CPA?

A. After proper education, training and experience, the candidate must pass an extensive examination covering both the theoretical and practical phases of accounting. Forty-six States and four territories use uniform examinations prepared by the American Institute of Accountants, and the other two States use comparable tests. All States require CPA candidates to have at least a high school education or the equivalent, and six States have educational requirements beyond the high school level.

Q. Do CPAs constitute a monopoly?

A. The contrary is true. CPAs are always trying to attract more qualified young men and women to the ranks of the profession. For example, more than 36,000 copies of a booklet called "Public Accounting as a Career" have been distributed to students by the American Institute of Accountants and State societies of certified public accountants. In 1943 the Institute began sponsoring a continuing study to develop aptitude and achievement tests—which are now in use—to help accounting firms find talented prospects, and to help prospective CPAs evaluate their own qualifications for this special field. More than \$80,000 has been expended so far on this testing program alone.

Q. Are CPA examinations too difficult?

A. The standards of performance for the CPA are really set by clients and public needs. The

examination, therefore, reflects the qualifications which those who use financial statements want in the accounting profession. No legislation can change this demand. The examination leading to the CPA certificate is thorough, because the public interest requires the maintenance of high standards.

There is considerable misunderstanding about the number of failures in the examination. Many candidates who fail to pass all sections of the examination on their first attempt receive credit for those they do pass, and are successful in the others later.

Q. But if more CPAs are needed, wouldn't it be a good idea to make the tests simpler?

A. That would not be a solution. We need more doctors, but no one seriously suggests that we lower standards in the medical schools and hospitals. For parallel reasons, it would be hazardous to give official CPA standing to men or women without CPA qualifications.

Q. When a man fails to pass the CPA examination, what happens to him?

A. Such failure does not by any means prevent him from earning a livelihood in accounting. He is still perfectly free to accept employment as an accountant, either on the staff of a public accounting firm, or with a private firm, as many thousands do every year.

Q. How many certified public accountants are there?

A. About 35,000. The rate of growth in the number of certified public accountants is much faster than in any other profession; about six thousand candidates have received certificates in the last two years. There are more accounting students in schools and colleges today than ever before.

Q. Why should you be concerned about the maintenance of professional standards for certified public accountants?

A. Special interest groups have tried from time to time to lower the standards of the CPA examination, or to obtain CPA certificates for candidates who were not properly qualified. Such attempts might be successful unless businessmen, legislators, and others who are concerned with financial reporting recognize the importance of supporting the integrity of the certificate.

